efficiency of the identical support rule and how it tends to promote efficiency and the question I have -- maybe I'll direct to you, Mr. Johnsson, about, if we're going to find alternative solutions to the identical support rule, they've got to be competitively neutral and promote efficiency.

So under such a framework, if you were to go away from that, how could you ensure that CETCs have incentive to minimize their costs if you were to base support on their own costs?

MR. JOHNSSON: Well, first of all, we're not efficient carriers. In fact, the two competitive companies here couldn't even keep their comments within three minutes.

Wireless competition: We have cable TV competition, we have a tremendous amount of competition in our marketplace already. So we have to learn to be efficient, or we can't operate.

I believe that the ETCs have the same situation. I think, what we've created as a circumstance where they get an unreasonable level of public money -- and I'm not concerned about what they get, quite frankly. What I'm concerned about is providing great service to the customer.

And at the end of the day, as CEO of a company, my concern is that this program blows up because there's too much money, you know, out there going for this purpose without being used in the public interest. And, as a result of that, we don't provide good service to our customers.

So, at the end of the day, I just think it's critical that we -- companies will operate efficiently, you know, or they're not going to survive long term. There's not going to be enough federal money, or any other kind of money, coming from places other than from the customer that you can run a business effectively and be able to survive in the long term.

MR. ROWE: I would like, initially, some comments on the relevance, if any, of the -- of no-barriers platform approach to these issues, and here comes the compound part: In the Section 254 requirements that support be used for the purposes intended, that would be useful, but, again, the core of the question is, is there any relevance to no barriers?

That's to anyone. Mr. Cosson is leaning towards the microphone.

MR. COSSON: All right. By focusing support on the cost of the universal service provider, the ETC, whether it's ILEC or CETC, those costs can reflect the particular technology by form of support.

And I think this is perhaps the difference between Mr. Wood's position and of the RCA -- and the Rural Cellular -- and the rural CLECs -- is that recognizing the wireless, for example, as a radically different cost structure -- and that's words from one of the wireless commenters in the proceeding -- that whatever their forward-looking costs are, it should reflect that particular technology going forward.

And so, as you do that, you make sure that you're not creating a barrier to the most efficient use of the technology because you're not tying the support to somebody else's technology.

MS. PIDGEON: Could I respond as well?

COMMISSIONER ABERNATHY: Sure.

MS. PIDGEON: I know you wanted to do -- the -- I think both of the questions asked by Commissioner Adelstein and Commissioner Rowe get to what is a fundamental question when we look at the issue of the basis for support between the carriers, and that is, what is going to be achieved by providing support based on different carriers' costs?

I think one of the suggestions was that support be based on the costs of individual carriers, but capped at the ILEC rate. I think the incentive for competitive carriers under that sort of system is entirely wrong.

Because what it does is, it would support a CETC network to its greatest extent and, if it's capped at the ILEC rate, then the only incentive for the CETC is to become only as efficient, or only to have the same cost level as the ILEC, rather than preserving the incentives for the CETC to become as efficient as possible, so that it can reflect the cost advantages that it may have in the market and its pricing to consumers.

And by keeping the support at an equal per-line basis, you actually preserve those incentives because it maintains the cost relationship between the carriers that would have otherwise existed in the absence of a subsidy in the first place.

COMMISSIONER ABERNATHY: Commissioner Rowe, could I do a follow-up for --

MR. ROWE: Please.

COMMISSIONER ABERNATHY: -- Ms. Pidgeon? Here's the dilemma from a regulatory perspective to the statement you just made. If you looked at our public notice, when we said that as an incumbent loses lines to a competitive eligible telecommunications carrier, the incumbent recovers his costs from fewer lines, thus increasing the per-line costs, and with higher per-line costs, then the incumbent receives greater per-line support, which is also available to the incumbent eligible telecommunications carrier.

Under this scenario, it's hard for me to envision anything other than an increase in support without very many incentives to decrease or become efficient. And that's the problem I have when what you're really looking at is a subsidy not based on any sort of rational business model, but a subsidy based on just, you know, high cost.

MS. PIDGEON: And that's why we've supported in this proceeding, both implementing a cap on the per-line support and the entry of a competitive ETC. And also, in order to preserve incentives for the ILECs to continue to compete for customers once you have a competitor in the market, that, in fact, to make support truly supportable.

I think today what a lot of -- what's been recognized is that, incumbents continue to receive entire support for their networks, although competitors are receiving on a per-line basis, but that there's really no loss in support for an incumbent when it loses a customer.

And that also, I think, takes away some of the competitive incentives for the two carriers in the market to continue competing for carriers -- for customers -- back and forth. Once a customer goes to a competitive carrier, it's not lost to the incumbent forever.

The competition would say that the incumbent should be trying to get it back, and it does that through better service packages, better pricing, increased efficiency.

MS. THOMPSON: I have a follow-up question on that one, too, which is doesn't it really hinge on what you mean by equal per-line support? If equal per-line support is the same amount, it could be interpreted as the same dollar amount, it could be interpreted as an equal method of determining the amount of support.

I don't know now of a model that would allow us to do that, but that's, you know, there's plenty of smart economists in the world, maybe somebody can figure that out. Wouldn't a model that uses the same methodology for calculating support to all carriers really be more closely aligned with appropriate economic incentives?

MS. PIDGEON: I think so long as that model was -- the output of that model was applied in the same manner to all the carriers in the market, that that would be the case.

MR. WOOD: Commissioner, can I follow up on that?

MS. THOMPSON: Sure.

MR. WOOD: Very briefly, and to something Commissioner Abernathy said as well. If you look at capping per-line support in terms of avoiding -- you, Commissioner Abernathy, I think described as the ever increasing amount upon competitive entry -- the response, then, is, well, you know, isn't the incumbent like getting too little money over time because the support is capped on a per-line basis?

And one thing that's concerned me going through the comments is that there's blurring between cost causation and that way that funding is currently being calculated. The funding's being calculated on a total ILEC cost divided by total lines basis.

And when you do that, it gives you the suggestion that network costs are fixed somehow with the level of the entire network and you're simply distributing them among a fixed number of lines, or a given number of lines.

When you actually get into the cost causation, and since this model certainly reflects this, you find that the costs are not fixed at the level of the network, they're fixed a much more discrete level than that. So this exercise is not as simple as dividing total cost by total lines in terms of calculating the relevant cost per line going forward.

At the risk of putting an overly fine point on it -- I guess I'll put an overly fine point on it. If we were looking at some of these rural areas that are at issue today, that frankly we're all talking about, and there were no network there at all, I don't think it would be a foregone conclusion whether a wire line or wireless solution would be the most efficient way to serve that entire area.

Now, we can't start -- that would be an ideal starting point in the exercise, because then we could find out. We don't have that ideal starting point, we have a current carrier in place. The current carrier's providing very valuable services as carrier of last resort.

I think the threshold question is how do you get the right signal to the marketplace? We want efficient entry, we don't want inefficient entry, how do you get the right signal?

The per-line support, based on the ILEC cost -- and I firmly believe it needs to be economic cost to fine tune this -- gives a new entrant -- a potential new entrant -- the right benchmark by which to measure themselves, to know whether they are more efficient and should enter and to know whether they're less efficient and shouldn't.

Now let's look at the worse case scenario in this so-called windfall. A lower cost provider -- and everybody's been pointing to wireless as a low-cost provider and I'll accept that in a lot of cases -- let's take it as a low-cost provider -- they're coming into the area, they're receiving per-line support based on the ILEC costs. What are they doing with the money?

Well, they're not going to Vegas with it. They have choices. They can invest in the area, operate and maintain the facilities to serve that rural area.

The worst case scenario of ILEC costs being used to provide support to a lower costs CETC is that you have an accelerated network build-out by the carrier that everyone just agreed was the more efficient, lower cost provider.

I'm having a hard time going through the comments finding out -- figuring out -- why that's not good public policy. You know, do we really want a national policy, of figuring out how to discourage entry by a more efficient provider. You know, if we do, then we're moving down the right road. If we don't, then I think the right benchmark is the one that's in place today.

MR. ROWE: I think this has been a great discussion. My follow-up question is, there's been some discussion about the embedded and forward-looking methods, everyone has read the RTF report on the problems applying forward-looking costs to small companies.

I understood several of you to suggest that it might be appropriate to use embedded costs for small rural incumbents and forward-looking for competitive entrants. Is that correct, and could you comment on that?

MR. JOHNSSON: I'll comment. Our position is that we believe that you could arrive at an average schedule or some other kind of costs for the competitive entry to receive universal service support. We think it's remained as embedded cost for the incumbents, the same approach you've been using all along.

We think you could relatively easily arrive at some kind of an average schedule type cost. Whether it's forward looking or not, I'm not prepared to answer that question.

MR. BERGMANN: If I could respond. It's our view that forward-looking economic cost is the way to go on this. We recognize that there is a problem applying any cost model to the smallest ILECs. Therefore, while a workable cost model is being developed for all carriers, we support continuing to use the embedded cost for the smallest rural carriers.

MR. ROWE: Yes?

MR. STEINBERG: If I could just offer a couple of comments. This question about forward-looking cost is not something which is new and something which we don't have any experience with.

We all know about forward-looking cost, and I won't get us too far into debate over tiered pricing, but the -- it's important to take a couple of lessons from what we've learned from tiered pricing.

And what we've learned is that it brings to the table the use of various F words. And it's not just forward looking, but they turn out to be costs, but they turn out to fictional costs and they turn out to be fantasy costs.

And providing support on the basis of fantasy cost that have no relationship to reality, I submit will not be a proper use of USF for the purposes for which it was intended.

MS. THOMPSON: I've got a follow-up question for

Mr. Bergmann --

MR. BERGMANN: Yes, ma'am.

MS. THOMPSON: -- which was, you said that all the smallest carriers should be exempt from this forward-looking cost model. How do you define that pool? Is it the same or different than the pool that's now identified as rural carriers under the Act?

MR. BERGMANN: What -- the position expressed in our comments is that the largest of the carriers that are currently classified as rural carriers should be moved in a rapid fashion to a forward-looking economic cost test. It's only the smallest ones who would remain under the embedded cost test.

MR. GREGG: Mr. Bergmann, following up on your comments. Would those largest carriers be those that serve 50,000 lines or more?

MR. BERGMANN: That's the number that's in our comments, yes.

MR. COSSON: If I could respond a little bit to all three of those questions. The process of determining support amount as it's done today with the embedded cost or the model for that matter, you know, that's only the first step.

And the second step is, how much cost there is, to the extent that you want to retain embedded cost for the small ILECs and have competitive carriers on a forward-looking cost.

That -- it doesn't necessarily mean, then, should you plug both of those numbers into the same formula, if you need to have all three pieces of the equation so that you can recognize that forward-looking cost may produce a different answer and develop support accordingly.

And the other side of that response is, it's important to emphasize -- in RICAs position -- and recognize that small ILECs great concern was the use of the model -- the FCC model -- was clearly shown not to be a valid predictor of the cost of any particular rural area.

RICA's conception of forward-looking cost study is more one that would be presented to a lender saying, this is what it's going to cost me to build this new area, for example, that Mr. Wood has talked about.

COMMISSIONER ABERNATHY: As a follow-up to this whole debate about embedded versus forward-looking, I think, as Mr. Wood here said, that it should be -- we should be sending the right signals to the market.

MR. WOOD: Yes, ma'am.

COMMISSIONER ABERNATHY: So, if you want to send the right economic signals, aren't you really trying to have a business decision made based on what it would cost you, a carrier, to go in and serve this area above some threshold where you know at a certain threshold you'll get support or not.

Looking back toward someone else's embedded cost seems to me not to be the right pricing signal because that's not really relevant to the question of, is this a good market where an efficient carrier can go in and start offering an alternative to the incumbent. I'd just like a comment on that.

MR. WOOD: Yes, ma'am. And I think you're exactly right. I mean, let's remember why we have embedded costs and USOA in the first place, and it's because, you know, for monopoly -- statutory monopoly -- providers, we don't have, by definition, competitive market forces to find out what the economic costs are.

It's nothing artificial about that, I won't use the F words to describe them. And those are the economically relevant costs. Now how do we get to the best estimate of those, because that is -- exactly what you said -- that's the right benchmark. That's what the CETC has already been measuring themselves against.

I've spent a fair amount of time going through all the cost models, and I've been revisiting the SCM just in the last couple of weeks, and, you know, the conclusion that the model can't perform well in these low density areas because it doesn't reproduce existing embedded cost, I'd almost find it favors to reproduce embedded cost to be a vote in favor of, not against.

There are some disparities in cost that, I think, are fully addressable. There's a line count disparity that I've been looking at that I don't think people have talked very much about.

If you look in the SCM right now, for given service areas it's showing a much lower line count than what's being reported to NECA by the rural incumbents. If the line counts are understated, it's going to overstate -- cause the model to overstate the cost. So we certainly need to look at that.

But at the end of the day, that is exactly the correct measure of cost. And let's don't forget, the model's not, you know, to suggest that the model's biased toward the lowest density areas, the zero to five lines per square mile, ignores the fact that for the tier one LECs today, there's a significant number of lines in those lowest density areas. We're using that model to determine support.

The suggestion that there's a bias in favor or against a company size, I pulled the SCM results for Mississippi, which seems to be everybody's favorite high-cost state. And I looked at South Central Bell versus about a dozen rural independent companies.

And if there were a bias against the small companies, I would have expected their costs to line up over here, with South Central somewhere down at the other end of the spectrum. It turns out -- what the model's reporting is South Central almost dead center of those dozen or so small independents. There doesn't appear to be an independent versus our bought size company bias in the model, based on those results.

So there's some work to do on the model, but I don't think we're that far away from having a viable tool to send the right signal.

MR. JOHNSSON: Can I comment on that, please? I'd like to say, respectfully, that we operate 29 companies from 500 access lines to 30,000. The cost to provide the infrastructure and to operate -- the day to day, on the street operation -- of those companies is dramatically different. And I'll be glad to sit down and show it to you and prove it to you.

We have something that we take very seriously, and that's obligation to serve the customer. And that's every customer. That's every consumer out there we have an obligation to serve.

And, you know, there's certain costs involved in that. Those costs are much higher in low density areas than they are in high density areas. And when you look at -- try to compare -- SBC or any other company -- I've looked at an awful lot of telephone companies in this country that have been for sale from time to time, and had a chance to dig into their books -- and I can tell you that the big -- larger -- companies are providing internal subsidies to those rural areas and that's the only way they're providing the service to those rural areas.

The smaller companies -- you know, the 1,000 access line company operating in Montana -- has no ability to provide any internal subsidy anywhere. And their costs are substantially higher, and if they don't -- aren't able to recovery those costs through some mechanism other than directly from the customer, the customer will end up being disenfranchised and leaving the public network.

I'm absolutely convinced that's what's going to happen if this program falls apart.

MS. PIDGEON: Commissioner. Commissioner Abernathy, can I respond directly to your --

COMMISSIONER ABERNATHY: Why don't I let Commissioner Rowe give you his follow-up and then see how you can --

MR. ROWE: I apologize to Tom. I want to push that just a little bit, Mr. Wood. I think your comment was provocative, but maybe somewhat a historical. And it seems to be part of the reason we have this tension, is that, in fact, universal service was initially a method to allocate and recover costs within a network.

I mean on an overlay of the 254 purposes, but still with -- dealing with access issues and whatnot, we're still, in many cases, driven by the need to in some way, now more explicitly, recover these historic -- recover and allocate -- these historic costs. You have recognize that history to get the point you're describing.

MR. WOOD: Well, that's right. And I think it's absolutely critical that you recognize the time element to this. You know, certainly the existing -- the incumbent LECs have the carrier-of-last-resort obligation.

And I want to disagree with my colleague about other carriers and other ETCs not having a similar obligation because, of course, they do and, I'd say they have the same commitment.

To expect them to come in and serve an entire area on day one holds them -- the CETCs -- to a standard that the incumbents were never held to. The incumbents didn't come in and serve their areas -- the entire area on day one with a full build-out. They built out over time, receiving support, until they served where they are today. You know, we can't -- that's not the right basis for comparison.

In terms of ultimately getting to the original purpose of universal service, which I don't think, on a long-term basis, is at odds with the 254 overlay. Is -- we've got to go through -- it's a pain. There's no other way to put it. There's a transition here that no one ever said, Congress never said, it was going to be easier or pain-free or costless, and it's not going to be.

If you shut out competitive entry, if you shut out lower-cost providers, then you are instilling into perpetuity the existing cost base of the incumbent in terms of what you must fund to meet those original purposes of universal service to get down to the last-resort obligation.

If you have the right incentives to the marketplace, if a lower-cost provider can build out over time -- hopefully less than a few decades, but it's going to take some amount of time to do that build-out -- and they're a lower total cost solution for that area, then you get back to the ALENCO decision -- this is about lower-cost solution for customers, not carriers.

What you must then fund long term, if anything, if a lower total cost solution. So, I don't think if you looked at this on a long term basis, these things are -- necessarily there's a tension -- short term, of course, there's a tension.

Longer term, I think, you know, we've got to look at what we want to fund long term. Do we want to take what's in place today and fund it forever? Do we want to send the right signal to the marketplace, have new providers come in and fund something less or nothing long term?

COMMISSIONER ABERNATHY: Tom?

VOICE: Commissioner, if I might offer a comment.

MR. DUNLEAVY: I just think it's very --

COMMISSIONER ABERNATHY: We're going to let him go and then --

MR. DUNLEAVY: I think it's very, very important that we note that Commissioner Rowe adhered to that admonition and there was no compound question that was involved. Having said that, now I'm going to return to something that's a little different and a simplex question.

Now, does sufficient support mean sufficient to ensure that each carrier that might seek to provide service could own a fair return? Or does sufficient mean to ensure that customers receive reasonably comparable service and rates regardless of which carrier actually provides the service or which technology is used?

And I think I heard both Mr. Wood, Mr. Steinberg, and certainly Mr. Johnsson address that issue. Maybe you could help?

MR. STEINBERG: Yes, actually that fits well with some of the comments I wanted to make because I think we do have to keep in mind that what this really is about is about consumers and being able to ensure that consumers receive comparable service at comparable rates in rural areas to what is provided in urban areas.

I can tell you that some of the comments that have been made here are not quite accurate. Certainly not in our experience. When competition is provided over a union line, we do not maintain our levels of universal service support. They diminish.

And I would simply point you to Section 54.307(a)(2) of the FCC rules and to the provision that talks about the incumbent receiving the difference between what the CETC receives and what the ILEC would have otherwise received. And we do lose support.

Now, what's the impact of that? In part, responding to something that Commissioner Adelstein asked about earlier, we have great incentives to be efficient. We have cut costs and, in fact, when we've compared out cost structure to the cost of similar companies, we find that we are amongst the lowest cost companies providing the service where we operate.

But, most importantly, what we have found is, with competition, our actual rates of return have diminished so levels well below what's authorized. What's the impact of that diminished rate of return? The impact is, we have cut our capital investment and, in fact, we have even reduced our maintenance expenses. So we're now approaching areas where we're not investing new capital in the network, we are not able to maintain the network to levels that we have historically.

And the question is, is this -- this isn't just about us. This is about the consumer. It is the consumer -- not today, perhaps not tomorrow, but down a road a little ways is a consumer that is going to suffer from our inability to invest and our inability to maintain the network.

MS. PIDGEON: Could I --

COMMISSIONER ABERNATHY: Go ahead, jump in.

MS. PIDGEON: I do understand what the rule says about incumbent carriers losing support, but I think it's been widely recognized to the -- upwards of this proceeding that in practice is not actually what's happening.

And I'll also add that, well, if ACS is one of the most efficient carriers, I can't say that GCI is paying one of the highest loop rates in the country in order to provide facilities-based competitive service.

And to the extent that, if a particular carrier does claim to be reducing maintenance, reducing investment, I do think that in the context of this proceeding, there should be a deep and serious consideration of what the causes are and look at those that are directly related to universal service policies, or instead perhaps related to business decisions made by a particular carrier or carriers.

If we base universal service policies based on claims of carriers stopping investments or their claims that they will no longer invest because of universal service policy, I think there should be support or some tie there, and I don't think we've seen that.

In fact, I think, with competition, there should be the incentive to invest, the incentive to improve services, the incentive to compete for customers.

MS. THOMPSON: I have a follow-up question to a line of inquiry, if Commissioner Dunleavy will allow --

MR. DUNLEAVY: Please.

MS. THOMPSON: -- which is the support mechanism that Mr. Steinberg identified is one that I have wondered whether we should be considering preserving. Basically, when a competitor enters a service area and provides service for UNE's, the ILEC does not lose all support. The ILEC gets the margin, as you pointed out by the citation.

How is that good economic policy? Why should we, or should we continue to provide for a mechanism like that going forward for rural support and not -- how does that create the appropriate market incentives?

I'm interested in hearing not just from the two of you that I have the pleasure of hearing from frequently, but from the rest of the panel as well.

COMMISSIONER ABERNATHY: Nobody else wants that? All right.

MR. WOOD: The issue in Alaska is somewhat unique in -- compared to what other CLEC see in other parts of the country because the rural companies that we represent are -- built their own facilities -- they have built their own facilities because the existing large companies have not -- have ignored the rural areas, the remote areas, for a long, long time.

And these rural CLECs have come in, built new facilities, they've taken a very large market share as a result of that.

So this really goes to Commissioner Dunleavy's question, the consumer has benefitted because they have provided very substantial improvements of service. It goes to Commissioner Rowe's question because the new platforms they have built provide for advanced services as one of the goals of the Act going forward.

But the UNE based issue is, you know, and even I see from GCI's sake, yes, it may seem as a temporary situation. I think, now everybody wants to get on to their own facilities, if they can, going forward.

Where the customers benefit in -- from the rural CLEC receiving proper support is that they can provide services. Large companies simply won't build out into these rural areas. You know, unless you have an FCC and state commissions that are willing to get in on an exchange by exchange basis and say, look, are you doing the right job here, or there, or not.

I think it's a practical matter that isn't going to happen. Instead it has to be that the support has got to be available. In that case, these companies have really replaced the incumbents and, in fact, I know one of them has asked the Commission to ask the FCC to be declared the incumbent and we're waiting for some results of that.

MR. DUNLEAVY: Thank you. May I just --

COMMISSIONER ABERNATHY: Sure.

MR. DUNLEAVY: I just want to ask something, and I'm not looking for a specific answer, but at some point in time, maybe someone either on the panel, up here, or in the room can help me out. You know, I've heard here, and I've read here, and I've used many times the expression carrier of last resort, provider of last resort, and I've never seen a legal definition of that.

You know, it's like porn. I know it when I see it, but maybe someone could, at some point in time, and as I said, not necessarily here, but if you know of a citation, maybe you could help me. Mr. Steinberg?

MR. STEINBERG: Yes, I will give you a citation to a docket in Alaska, UO297, in which case we addressed an issue whereby our competitor, my colleague on my left's company, wanted to provide service to a customer that did not have facilities to that customer.

And we, the incumbent, were ordered to build the facilities and to provide them to our competitor at a discounted UNE lease rate in order for them to provide service to that customer. That sounds a lot to me like we got stuck with the carrier of last resort responsibility and I just refer you to that docket.

MR. DUNLEAVY: Thank you.

MR. GREGG: As a follow-up to that, would the panelists agree that, under 214(e) of the Act, that when you become an ETC, whether you're an incumbent or a competitor, you have taken on the responsibility of serving everyone within your designated service territory whether you physically have facilities to serve them at that particular time or not?

MR. JOHNSSON: I would absolutely agree with that.

MS. PIDGEON: I agree with that also, and the CETC also, once it is approved as an ETC under 214, also bears the possibility that if a carrier leaves the market, that within one year that the remaining ETC will have to secure facilities to serve the entire market.

MR. GREGG: Do you agree, Mr. Wood?

MR. WOOD: Yes, sir. And I think there's -- it's -- talk is cheap I guess, but, you know, when you look at some of the member companies that I'm speaking for today, these are companies -- you know, we're hearing down the table that companies don't want to invest in an area.

These are companies that are looking to pour a significant amount of their own capital, far in excess of the high support fund dollars, into the area to serve it. You know, that's a real commitment that needs to stand for something.

These are carriers trying to serve these areas. They're not going to do it in a month with their own facilities. No one ever has. They're certainly going to build out as quickly as they can, as quickly as their own capital and the support funds permit.

MR. GREGG: Based on that requirement to serve everyone who asks within your service territory and following up on the requirement in 214(e)(4), that you may be the sole ETC if the incumbent abandons the territory. Would you all agree that by becoming an ETC, you are, in effect, each providers of last resort in your service territory?

MR. JOHNSSON: I would agree that certainly ought to be. I think one of the problems we're talking about here -- it strikes me as -- I don't know any other business

I've ever seen where one side of the business is highly regulated and receives public support to help recover some of its cost to provide service in very high-cost areas, and the other -- competitors come into the marketplace not highly regulated.

You know, when I spend money for cap ex I have to report to the various commissions that I operate in what I'm spending that money on, show them that it's -- that any public money is going for the appropriate purpose.

I find it, quite frankly, hard to believe that people would expect receive public monies without some obligation that goes along with that. It just blows my mind as a consumer, not as a telephone guy, but as a consumer.

MR. GREGG: Would you agree that under 254(e) of the Act, that state commissions, and the Federal Communications Commission in lieu of the state commission, have the authority to review the receipt and uses of universal service monies by all ETCs?

MR. JOHNSSON: Absolutely, and I believe that they're not adequate standards. There's a panel that met later this afternoon and, quite frankly, I wish I was on that panel because I have very strong opinions about that subject.

VOICE: And, Mr. Gregg --

MR. STEINBERG: Can I just follow-up on that very briefly. I would say that, not only does -- through the states and the Federal Communications Commission in particular, have that opportunity, I believe they have a duty to apply the Act, the provision of 254, properly to ensure that the money is used for the purposes for which it was intended.

MR. WOOD: Yes, and certainly USAC has audit capabilities. I have a concern that they've used those fairly selectively in terms of CETCs and not IETCs. They're certainly more than anecdotal evidence that there's very good reason to keep a very close tally of how all carriers, incumbents and competitors, are using these funds.

MR. COSSON: Let me suggest -- in our original comments, we did point out there's a conceptual issue, that our ruling needs more definition and thought because if you are any kind of enterprise, you're receiving funds from multiple sources, you're spending them on multiple services, how do you decide where the money goes? It doesn't come in in color codes dollars, so you can't really say, well, you know, I got this dollar here and I spent it there.

MR. GREGG: So you would --

MR. COSSON: And so there needs to be more rigorous, you know, thought and some kind of way -- because -- and just -- you know, as an attorney representing these folks who are signing these certifications, I would rather see if defined more clearly what it is they are certifying to than have a regulator come in and say, well, you know, we haven't defined it before, but we know it when we see it, and you're not doing it.

I'd rather, you know, have it defined so that, then, they can be sure that their certifications are correct.

MR. GREGG: So I take it you would agree that universal service money should be spent on incremental improvements to the network, not in place of those cap ex expenditures who are already being made historical?

MR. COSSON: No, I do slightly disagree with you, Mr. Gregg. I think universal service is, in fact, directed toward all of the cost of the carrier, which include both discount capital cost and its operating cost, because, remember when we're done with the build-out that Mr. Wood's clients are putting together, you know, there -- certainly in small companies, capital investment is lumpy. It's not a continuous process like the large companies.

So you get to a point where, you know, you have your ongoing capital cost, it is the cost of equity and debt, but you do not have new -- necessarily new -- capital expenditures each and every year, but you do have operating costs.

And I think universal service support properly goes to those operating cost as well as the capital cost. I mean, that being said, you know, the fact that you had capital expenditures to serve people that weren't receiving service before is certainly a proper use of universal service funds.

MR. ROWE: Does that go back to that tension again between the historical purposes of cost allocation and the 254 purposes?

MR. COSSON: Yes, I would say. And, in fact, I'm not even sure that the historical version of cost allocation and cost recovery necessarily goes away, and that, I think, is consistent with out position that support should be based upon the cost of the particular carrier because Atkins Act, you know, would tie to the cost that -- showing that it is cost recovery.

If it's not cost recovery, why do you need it for? And if you don't need it, why should the public support it. So, you know, but then the need should relate particularly to the platform that's being used. So, you know, we shouldn't -- one size fits all cost doesn't work.

MR. DUNLEAVY: Excuse me. If I may? So, if I understand it, in an area where there are two ETCs that are providing service and they have different costs, would you expect that the fund would then support the higher cost ETC?

MR. COSSON: In -- well, take the example of say